

**City of Fort Madison**

**Independent Auditor's Report  
Management's Discussion and Analysis  
Financial Statements and Supplementary Information  
Independent Auditor's Reports on Internal Control and Compliance  
Schedule of Findings**

**June 30, 2016**

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**City of Fort Madison**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Randolph	Mayor	January, 2018
Rusty Andrews	Council Member	January, 2018
Chad Cangas	Council Member	January, 2020
Chris Greenwald	Council Member	January, 2020
Mark Lair	Council Member	January, 2018
Kevin Rink	Council Member	January, 2020
Travis Seidel	Council Member	January, 2020
Brian Wright	Council Member	January, 2018
David A. Varley	City Manager	Indefinite
Melinda Blind	City Clerk	Indefinite
Peggy Steffensmeier	City Treasurer	Indefinite
Robert N. Johnson, III	Attorney	Indefinite
Tim Sittig	Police Chief	Indefinite
Joey Herren	Fire Chief	Indefinite



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## **Independent Auditor's Report**

Honorable Mayor and  
Members of the City Council  
City of Fort Madison, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fort Madison, Iowa (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting as described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the 9 years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information on pages 43 through 51 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability - IPERS, the Schedule of City Contributions - IPERS, Schedule of the City's Proportionate Share of the Net Pension Liability - MFPRSI, Schedule of City Contributions - MFPRSI, and the Miscellaneous Statistical Section on pages 5 through 11, 35 through 42, and 52 through 53, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*CPA Associates PC*

February 21, 2017

## **City of Fort Madison Management's Discussion and Analysis**

The City of Fort Madison (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 25%, or \$2,731,255, from fiscal 2015 to fiscal 2016. Capital grants and contributions and bond proceeds increased \$668,370 and \$2,095,000, respectively.
- Disbursements of the City's governmental activities increased 11%, or \$1,457,007, from fiscal 2015 to fiscal 2016. Debt service and capital projects increased \$2,152,008 and \$375,374, respectively.
- The City's total cash basis net assets decreased 4%, or \$937,800, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased \$922,423 and the cash basis net position of business type activities decreased \$15,377.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **City of Fort Madison Management's Discussion and Analysis**

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

#### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and solid waste departments. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Sales Tax, Urban Renewal Tax Increment Financing (TIF), and Grant Opportunity, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statements for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.
- 2) Proprietary funds account for the City's Enterprise Funds and Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer, and Solid Waste Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The required financial statements for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.



**City of Fort Madison  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$20,570,802 to \$19,648,379. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Receipts:		
Program receipts:		
Charges for services	\$ 363,511	\$ 338,120
Operating grants, contributions and restricted interest	2,145,171	2,036,499
Capital grants and contributions	819,207	150,837
General receipts:		
Property tax	4,785,798	4,491,956
Local option sales tax	1,477,167	1,436,359
Tax increment financing	423,262	814,262
Unrestricted interest on investments	156,450	188,056
Bond proceeds	2,095,000	-
Bond premium	28,420	-
Other general receipts	<u>1,183,075</u>	<u>1,289,717</u>
Total receipts	<u>13,477,061</u>	<u>10,745,806</u>
Disbursements:		
Public safety	3,792,454	3,756,500
Public works	1,287,967	1,198,604
Health and social services	20,526	30,316
Culture and recreation	1,296,240	1,163,989
Community and economic development	1,458,820	2,286,696
General government	1,209,946	1,700,223
Debt service	2,716,924	564,916
Capital projects	<u>2,761,615</u>	<u>2,386,241</u>
Total disbursements	<u>14,544,492</u>	<u>13,087,485</u>
Change in cash basis net position before transfers	(1,067,431)	(2,341,679)
Transfers, net	<u>145,008</u>	<u>145,008</u>
Change in cash basis net position	(922,423)	(2,196,671)
Cash basis net position beginning of year	<u>20,570,802</u>	<u>22,767,473</u>
Cash basis net position end of year	<u>\$ 19,648,379</u>	<u>\$ 20,570,802</u>

**City of Fort Madison**  
**Management's Discussion and Analysis**

The City's total receipts for governmental activities increased by 25%, or \$2,731,255. The total cost of all programs and services increased by \$1,457,007, or 11%, with no new programs added this year.

The cost of all governmental activities this year was \$14,544,492 compared to \$13,087,485 last year. However, as shown in the statement of activities and net position on page 12, the amount that our taxpayers ultimately financed for these activities through City taxes was \$11,216,603 because some of the cost was paid by those directly benefited from the programs (\$363,511) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,964,378). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, increased in 2016 from \$2,525,456 to \$3,327,889, principally due to an increase in capital grant contributions.

Change in Cash Basis of Net Position of Business Type Activities		
	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Receipts:		
Program receipts:		
Water charges	\$ 2,799,345	\$ 2,692,204
Sewer charges	3,069,282	2,659,810
Solid waste charges	776,431	779,969
Operating grants, contributions, and restricted interest	770,291	643,186
General receipts:		
Unrestricted investment earnings	10,553	19,328
Bond proceeds	4,473,814	1,665,818
Miscellaneous receipts	<u>154,651</u>	<u>154,458</u>
Total receipts	<u>12,054,367</u>	<u>8,614,773</u>
Disbursements:		
Water	3,106,893	2,755,767
Sewer	8,164,504	5,655,351
Solid waste	<u>653,339</u>	<u>767,692</u>
Total disbursements	<u>11,924,736</u>	<u>9,178,810</u>
Change in cash basis net position before transfers	129,631	(564,037)
Transfers, net	<u>(145,008)</u>	<u>(145,008)</u>
Change in cash basis net position	(15,377)	(709,045)
Cash basis net position beginning of year	<u>1,534,024</u>	<u>2,243,069</u>
Cash basis net position end of year	<u>\$ 1,518,647</u>	<u>\$ 1,534,024</u>

Total business type activities receipts for the fiscal year were \$12,054,367 compared to \$8,614,773 last year. This increase was due primarily to increase in bond proceeds and sewer charges. The cash balance decreased by \$15,377 from the prior year largely due to sewer capital projects. Total disbursements for the fiscal year increased by 30% to a total of \$11,924,736 due to sewer capital projects.

**City of Fort Madison  
Management's Discussion and Analysis**

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Fort Madison completed the year, its governmental funds reported a combined fund balance of \$19,648,379, a decrease of \$922,423 from last year's total of \$20,570,802. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$245,632 to \$2,035,482. The increase was due to state backfill and increase in property tax revenue.
- The Special Revenue, Road Use Fund cash balance increased by \$131,514 to \$180,372. This was due to an increase of over \$200,000 in the Road Use tax revenue.
- The Special Revenue, Local Option Sales Tax Fund was established in previous years to provide additional general fund revenues to reduce the City's reliance on property tax revenues and provide a reliable funding source for capital projects. Eighty percent of these Local Option Sales Tax revenues goes to the general fund, while the other twenty percent goes to pay for capital improvement projects. At the end of the fiscal year, the cash balance was \$634,026, an increase of \$187,502 from the previous year. This change was due to a small increase in revenue combined with a decrease in the amount that was transferred to Capital Project Fund.
- The Special Revenue, Urban Renewal TIF Fund was established in previous years to account for a major urban renewal project within the City's business district. The cash balance was \$401,694, an increase of \$124,591. This change was due to an increase in the property values within the TIF District.
- The Debt Service Fund cash balance decreased \$25,459 to \$19,766.
- The Capital Projects Fund cash balance decreased \$1,767,742 to a balance of \$15,472,772 due to the construction completed for several street improvement projects.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased \$196,897 to a negative balance of \$(51,770), due primarily to the extension of water lines put in place to serve businesses.
- The Sewer Fund cash balance increased \$75,261 to \$1,220,402, due primarily to the impacts related to major repairs to the sewer infrastructure and the timing of those projects.
- The Solid Waste Fund cash balance increased \$81,771 to \$270,616. This is due primarily to a decrease in expenditures for wages and benefits in the Solid Waste Fund.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its operating budget. The amendment was approved on May 17, 2016 and resulted in an increase in receipts of \$1,126,950 and an increase in operating disbursements of \$6,574,680. Increases in receipts included other taxes, intergovernmental, charges for service and miscellaneous. Increases in expenditures included public safety, public works, health and social services, culture and recreation, community and economic development, general government and business type.

**City of Fort Madison  
Management's Discussion and Analysis**

**DEBT ADMINISTRATION**

At June 30, 2016, the City had \$30,617,722 in bonds and other long-term debt compared to \$27,562,998 last year as shown below.

	Outstanding Debt at Year-End	
	June 30, 2016	2015
General obligation bonds	\$ 8,900,000	\$ 9,655,000
Revenue bonds	21,336,632	17,487,818
Capital loan notes	125,882	153,972
Urban renewal TIFs	<u>255,208</u>	<u>266,208</u>
Total	<u>\$ 30,617,722</u>	<u>\$ 27,562,998</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation, capital loan notes and TIF debt of \$9,281,090 is well below the City's \$21.4 million legal debt limit.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Lee County unemployment rate improved from 5.3% in June 2015 to 6.8% in June 2016. This increase is partly due to the fact that construction on the \$1billion plus, Iowa Fertilizer Company plant is coming to an end. The plant had reached a peak of 2,500 to 3,000 workers on site during the height of construction. The plant is nearly completed and the number of construction workers has dropped dramatically. Estimates of year-round, full-time employees range from 250 to 300. As construction workers are laid off, there is a natural rise in the unemployment rate while they find other jobs or leave the area for employment opportunities elsewhere.

The economy in the Fort Madison area remains fairly slow when compared to other areas of the State. Most of the growth that has occurred has been the expansion of existing facilities. Several small to medium-size factories are in the process of doubling the size of their buildings and operations. Other plants are adding to their product mix, which may also result in some growth.

The economy is still geared toward manufacturing which produces the highest number of jobs and stable employment in the area. Fort Madison's economic development efforts continue to be geared toward manufacturing with the idea of bringing more industry to the area and helping existing businesses expand. Related to this is the emphasis that is placed on worker training in order to have a qualified workforce for the companies that relocate here or are already operating here.

The local economy is also affected by the construction of the Bakken, or Dakota Access Pipeline. This is a 1,100 mile pipeline that will cut across Iowa and through a section of Lee County. The pipeline will carry crude oil from North Dakota's Bakken oil fields and end approximately 70 miles from St. Louis, Missouri. Construction of this pipeline has brought additional construction workers to the area although their stay here is relatively short, compared to the construction of the fertilizer plant.

## **City of Fort Madison Management's Discussion and Analysis**

A recent event that will contribute to the financial health of Fort Madison, is the approval of construction of a new Fareway Markets grocery store in the City. This will be the first Fareway Markets store in the area and it will be constructed on the same site where another grocery store was located but closed in 2016. This will be completely new construction of an 18,000 square foot store with the opening scheduled for the fall of 2017. This new store should give a boost to retail activity in Fort Madison.

During the year, the City extended water and sewer lines to various businesses to help them with their expansion plans. These City services will enable these businesses to construct larger facilities and in the long run be in a position to add more jobs to our economy. As the City extends these services, it also provides an opportunity to attract new businesses to the area as the utilities will already be in place.

The City is in the process of rehabilitating the Waste Water Treatment Plant after 40+ years of being in service. This is a very large undertaking with the total cost estimated to be close to \$18 million. This is a mandatory rehabilitation and increased rates will be necessary in order to pay the debt that will be incurred for this project. There are also water storage infrastructure issues, which need to be addressed soon by the City. These projects are a very necessary part of the City's operations and at times, they cause a need to incur debt. However, the City makes every effort to address infrastructure issues without having to borrow more funds.

The Fort Madison City Council continues to emphasize maintenance of the City's vast infrastructure including streets, water, sewer, storm sewer, parks and other important assets. If these assets are maintained properly then they will provide the City with longer service at a lower overall cost. When the economy is not very robust it can be quite a challenge to prioritize spending. However, we continue to place a high emphasis on maintaining the assets we have while protecting the financial integrity of the City. As we develop a budget and spending plan, we try to be frugal with the funds we have and we take a long-term view of our resources, our needs and our community. The City continues to face a tight economy with most revenue sources remaining flat, and the cost of providing services increasing yearly.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to David A. Varley, City Manager, City of Fort Madison, P.O. Box 240, Fort Madison, Iowa 52627.

## **BASIC FINANCIAL STATEMENTS**

**City of Fort Madison**  
**Cash Basis Statement of Activities and Net Position**  
**As of and for the Year Ended June 30, 2016**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service and Sales	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 3,792,454	\$ 23,535	\$ 242,034	\$ -	\$ (3,526,885)	\$ -	\$ (3,526,885)
Public works	1,287,967	27,383	1,386,691	-	126,107	-	126,107
Health and social services	20,526	-	172	-	(20,354)	-	(20,354)
Culture and recreation	1,296,240	151,963	198,246	-	(946,031)	-	(946,031)
Community and economic development	1,458,820	15,461	9,633	-	(1,433,726)	-	(1,433,726)
General government	1,209,946	145,169	308,395	67,600	(688,782)	-	(688,782)
Debt service	2,716,924	-	-	-	(2,716,924)	-	(2,716,924)
Capital projects	<u>2,761,615</u>	<u>-</u>	<u>-</u>	<u>751,607</u>	<u>(2,010,008)</u>	<u>-</u>	<u>(2,010,008)</u>
Total governmental activities	<u>14,544,492</u>	<u>363,511</u>	<u>2,145,171</u>	<u>819,207</u>	<u>(11,216,603)</u>	<u>-</u>	<u>(11,216,603)</u>
Business type activities:							
Water	3,106,893	2,799,345	26,406	-	-	(281,142)	(281,142)
Sewer	8,164,504	3,069,282	743,885	-	-	(4,351,337)	(4,351,337)
Solid waste	<u>653,339</u>	<u>776,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,092</u>	<u>123,092</u>
Total business type activities	<u>11,924,736</u>	<u>6,645,058</u>	<u>770,291</u>	<u>-</u>	<u>-</u>	<u>(4,509,387)</u>	<u>(4,509,387)</u>
Total	<u>\$ 26,469,228</u>	<u>\$ 7,008,569</u>	<u>\$ 2,915,462</u>	<u>\$ 819,207</u>	<u>(11,216,603)</u>	<u>(4,509,387)</u>	<u>(15,725,990)</u>
<b>General Receipts and Transfers:</b>							
Property and other city tax levied for:							
General purposes					4,171,833	-	4,171,833
Debt service					541,765	-	541,765
State backfill					72,200	-	72,200
Tax increment financing					423,262	-	423,262
Local option sales tax					1,477,167	-	1,477,167
Unrestricted investment earnings					156,450	10,553	167,003
Bond proceeds					2,095,000	4,473,814	6,568,814
Bond premium					28,420	-	28,420
Transfers					145,008	(145,008)	-
Miscellaneous					<u>1,183,075</u>	<u>154,651</u>	<u>1,337,726</u>
Total general receipts and transfers					<u>10,294,180</u>	<u>4,494,010</u>	<u>14,788,190</u>
Change in cash basis net position					(922,423)	(15,377)	(937,800)
Cash basis net position beginning of year					<u>20,570,802</u>	<u>1,534,024</u>	<u>22,104,826</u>
Cash basis net position end of year					<u>\$ 19,648,379</u>	<u>\$ 1,518,647</u>	<u>\$ 21,167,026</u>
<b>Cash Basis Net Position</b>							
Restricted:							
Nonexpendable					\$ 209,153	\$ -	\$ 209,153
Expendable					4,778,457	990,419	5,768,876
Unrestricted					<u>14,660,769</u>	<u>528,228</u>	<u>15,188,997</u>
Total cash basis net position					<u>\$ 19,648,379</u>	<u>\$ 1,518,647</u>	<u>\$ 21,167,026</u>

See notes to financial statements.

**City of Fort Madison**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2016**

	General	Road Use	Special Revenue Local Option Sales Tax	Urban Renewal TIF	Debt Service	Capital Projects	Other Nonmajor Govern- mental	Total
<b>Receipts:</b>								
Property tax	\$ 2,295,187	\$ -	\$ -	\$ -	\$ 541,765	\$ -	\$ 1,500,093	\$ 4,337,045
Tax increment financing	-	-	-	423,262	-	-	-	423,262
Other city taxes	113,748	-	1,477,167	-	-	-	262,805	1,853,720
Use of money and property	64,650	-	-	4,393	-	132,983	6,087	208,113
Licenses and permits	149,217	-	-	-	-	-	-	149,217
Intergovernmental	140,681	1,365,674	-	16,846	26,280	636,995	904,720	3,091,196
Charges for services	115,914	-	-	-	-	-	42,077	157,991
Special assessments	15,461	-	-	-	-	-	-	15,461
Miscellaneous	142,988	21,703	-	9,633	-	115,963	827,348	1,117,635
	<u>3,037,846</u>	<u>1,387,377</u>	<u>1,477,167</u>	<u>454,134</u>	<u>568,045</u>	<u>885,941</u>	<u>3,543,130</u>	<u>11,353,640</u>
Total receipts								
<b>Disbursements:</b>								
Governmental activities:								
Public safety	3,633,395	-	-	-	-	-	173,653	3,807,048
Public works	53,613	1,240,863	-	-	-	-	-	1,294,476
Health and social services	-	-	-	-	-	-	20,526	20,526
Culture and recreation	922,864	-	-	-	-	-	379,861	1,302,725
Community and economic development	175,748	-	-	329,543	-	-	954,390	1,459,681
General government	773,165	-	-	-	-	-	436,969	1,210,134
Debt service	-	-	-	-	2,716,924	-	-	2,716,924
Capital projects	-	-	-	-	-	2,761,615	-	2,761,615
Total disbursements	<u>5,558,785</u>	<u>1,240,863</u>	<u>-</u>	<u>329,543</u>	<u>2,716,924</u>	<u>2,761,615</u>	<u>1,965,399</u>	<u>14,573,129</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(2,520,939)	146,514	1,477,167	124,591	(2,148,879)	(1,875,674)	1,577,731	(3,219,489)
Other financing sources (uses):								
Bond proceeds	-	-	-	-	2,095,000	-	-	2,095,000
Bond premium	-	-	-	-	28,420	-	-	28,420
Operating transfers in (out)	<u>2,766,571</u>	<u>(15,000)</u>	<u>(1,289,665)</u>	<u>-</u>	<u>-</u>	<u>107,932</u>	<u>(1,424,830)</u>	<u>145,008</u>
Net change in cash balances	245,632	131,514	187,502	124,591	(25,459)	(1,767,742)	152,901	(951,061)
Cash balances beginning of year	<u>1,789,850</u>	<u>48,858</u>	<u>446,524</u>	<u>277,103</u>	<u>45,225</u>	<u>17,240,514</u>	<u>609,581</u>	<u>20,457,655</u>
Cash balances end of year	<u>\$ 2,035,482</u>	<u>\$ 180,372</u>	<u>\$ 634,026</u>	<u>\$ 401,694</u>	<u>\$ 19,766</u>	<u>\$ 15,472,772</u>	<u>\$ 762,482</u>	<u>\$ 19,506,594</u>
<b>Cash Basis Fund Balances</b>								
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 209,153	\$ 209,153
Restricted	-	180,372	634,026	401,694	19,766	2,873,898	668,701	4,778,457
Assigned	-	-	-	-	-	13,041,900	943,108	13,985,008
Unassigned	<u>2,035,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(443,026)</u>	<u>(1,058,480)</u>	<u>533,976</u>
Total cash basis fund balances	<u>\$ 2,035,482</u>	<u>\$ 180,372</u>	<u>\$ 634,026</u>	<u>\$ 401,694</u>	<u>\$ 19,766</u>	<u>\$ 15,472,772</u>	<u>\$ 762,482</u>	<u>\$ 19,506,594</u>

See notes to financial statements.



**City of Fort Madison**  
**Reconciliation of the Statement of Cash**  
**Receipts, Disbursements and Changes in Cash Balances**  
**to the Cash Basis Statement of Activities and Net Position**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2016**

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**Total governmental funds cash balances (page 13)** \$ 19,506,594

*Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

141,785

**Cash basis net position of governmental activities (page 12)** \$ 19,648,379

**Change in cash balances (page 13)** \$ (951,061)

*Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

28,638

**Change in cash basis net position of governmental activities (page 12)** \$ (922,423)

See notes to financial statements.

**City of Fort Madison**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the Year Ended June 30, 2016**

	<u>Enterprise</u>				<u>Internal Service Employee Health</u>
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>	
Operating Receipts:					
Charges for service	\$ 2,790,418	\$ 3,055,164	\$ 769,997	\$ 6,615,579	\$ 154,481
Total operating receipts	<u>2,790,418</u>	<u>3,055,164</u>	<u>769,997</u>	<u>6,615,579</u>	<u>154,481</u>
Operating Disbursements:					
Public safety	-	-	-	-	49,578
Public works	-	-	-	-	7,109
Culture and recreation	-	-	-	-	5,098
Community and economic development	-	-	-	-	1,284
General government	-	-	-	-	10,534
Business type activities	<u>1,948,185</u>	<u>1,569,263</u>	<u>654,338</u>	<u>4,171,786</u>	<u>27,752</u>
Total operating disbursements	<u>1,948,185</u>	<u>1,569,263</u>	<u>654,338</u>	<u>4,171,786</u>	<u>101,355</u>
Excess of operating receipts over operating disbursements	<u>842,233</u>	<u>1,485,901</u>	<u>115,659</u>	<u>2,443,793</u>	<u>53,126</u>
Non-operating receipts (disbursements):					
Special assessments	8,927	14,118	6,434	29,479	-
Intergovernmental	124,690	743,871	-	868,561	-
Interest on investments	2,760	6,148	1,645	10,553	-
Customer deposits	28,680	-	-	28,680	-
Miscellaneous	26,296	-	1,406	27,702	-
Bond proceeds	-	4,473,814	-	4,473,814	-
Capital projects	(450,716)	(5,927,978)	(3,365)	(6,382,059)	-
Debt service	<u>(719,767)</u>	<u>(675,613)</u>	<u>-</u>	<u>(1,395,380)</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>(979,130)</u>	<u>(1,365,640)</u>	<u>6,120</u>	<u>(2,338,650)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(136,897)</u>	<u>120,261</u>	<u>121,779</u>	<u>105,143</u>	<u>53,126</u>
Transfers in (out)	<u>(60,000)</u>	<u>(45,000)</u>	<u>(40,008)</u>	<u>(145,008)</u>	<u>-</u>
Change in cash balances	<u>(196,897)</u>	<u>75,261</u>	<u>81,771</u>	<u>(39,865)</u>	<u>53,126</u>
Cash balances beginning of year	<u>145,127</u>	<u>1,145,141</u>	<u>188,845</u>	<u>1,479,113</u>	<u>168,058</u>
Cash balances end of year	<u>\$ (51,770)</u>	<u>\$ 1,220,402</u>	<u>\$ 270,616</u>	<u>\$ 1,439,248</u>	<u>\$ 221,184</u>
<b>Cash Basis Fund Balances</b>					
Restricted for equipment replacement	\$ 36,000	\$ 954,419	\$ -	\$ 990,419	-
Unrestricted	<u>(87,770)</u>	<u>265,983</u>	<u>270,616</u>	<u>448,829</u>	<u>221,184</u>
<b>Total cash basis fund balances</b>	<u>\$ (51,770)</u>	<u>\$ 1,220,402</u>	<u>\$ 270,616</u>	<u>\$ 1,439,248</u>	<u>\$ 221,184</u>

See notes to financial statements.

**City of Fort Madison**  
**Reconciliation of the Statement of Cash**  
**Receipts, Disbursements and Changes in Cash Balances**  
**to the Cash Basis Statement of Activities and Net Position**  
**Proprietary Funds**  
**As of and for the Year Ended June 30, 2016**

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**Total enterprise funds cash balances (page 15)** \$ 1,439,248

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

79,399

**Cash basis net position of business type activities (page 12)** \$ 1,518,647

**Change in cash balances (page 15)** \$ (39,865)

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

24,488

**Change in cash basis net position of business type activities (page 12)** \$ (15,377)

See notes to financial statements.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

The City of Fort Madison (City) is a political subdivision of the State of Iowa located in Lee County. It was incorporated in 1838 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities and solid waste removal for its citizens.

Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Planning and Zoning Commission, Board of Adjustments, Airport Commission, Great River Regional Waste Authority, 28E purchasing arrangements, regional planning commission, E911 joint service boards, Southeast Iowa area safety support organizations, ambulance associations, and drug task force.

Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund (TIF) is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage pick-up system.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

*Nonspendable* - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

*Restricted* - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Committed* - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Council.

*Assigned* - Amounts the City Council intends to use for specific purpose.

*Unassigned* - All amounts not included in the preceding classifications.

**City of Fort Madison**  
**Notes to Financial Statements**

**Note 1. Summary of Significant Accounting Policies (continued)**

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Subsequent Events

The City performed an evaluation of subsequent events through February 21, 2017, which is the date the financial statements were issued. On July 22, 2016, the City increased the principal on the May 29, 2015 sewer revenue bonds by \$400,000. On January 20, 2017, the City issued \$19.927 million in sewer revenue capital loan notes.

**Note 2. Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of GASB Statement No. 40.

The City received \$169,898 in interest income during the year.

**Note 3. Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and revenue bonds are as follows:

Year Ended June 30,	General Obligation and Capital Loan Notes		Revenue Bonds		Urban Renewal Tax Increment Financing Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 768,465	\$ 281,538	\$ 709,000	\$ 641,281	\$ 12,000	\$ 12,700	\$ 1,489,465	\$ 935,519
2018	794,866	262,629	2,051,018	620,523	12,000	12,100	2,857,884	895,252
2019	775,796	242,430	750,000	599,873	13,000	11,500	1,538,796	853,803
2020	796,755	222,036	774,000	578,640	14,000	10,850	1,584,755	811,526
2021	565,000	197,878	800,000	556,718	14,000	10,150	1,379,000	764,746
2022-2026	2,585,000	759,735	4,278,000	2,431,008	84,000	39,250	6,947,000	3,229,993
2027-2031	1,910,000	391,825	4,240,000	1,790,725	106,208	16,250	6,256,208	2,198,800
2032-2036	830,000	59,790	3,873,407	1,045,563	-	-	4,703,407	1,105,353
2037-2040	-	-	3,339,000	374,620	-	-	3,339,000	374,620
2041-2045	-	-	522,207	44,303	-	-	522,207	44,303
	<u>\$ 9,025,882</u>	<u>\$ 2,417,861</u>	<u>\$ 21,336,632</u>	<u>\$ 8,683,254</u>	<u>\$ 255,208</u>	<u>\$ 112,800</u>	<u>\$ 30,617,722</u>	<u>\$ 11,213,915</u>

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 3. Bonds and Notes Payable (continued)**

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued urban renewal tax increment financing (TIF) revenue bonds for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. For the current year, principal and interest paid and total TIF receipts were \$24,800 and \$454,134, respectively.

Revenue Bonds/Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay five revenue bond issues. The bonds were issued between October 2009 and October 2011. Proceeds from the notes provided financing for the construction of several water system projects and construction of a new water treatment plant. The notes are payable solely from water customer net receipts and are payable through 2040. The total principal and interest remaining to be paid on the notes is \$20,566,250. For the current year, principal and interest paid and total customer net receipts were \$800,430 and \$842,233, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay five revenue bond issues. The bonds were issued between April 2004 and December 2015. Proceeds from the notes provided financing for the construction of several sewer system projects. The notes are payable solely from sewer customer net receipts and are payable through 2045. The total principal and interest remaining to be paid on the notes is \$9,453,636. For the current year, principal and interest paid and total customer net receipts were \$382,222 and \$1,485,901, respectively.

The resolutions providing for the issuance of the water and sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Water user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements due in the same year.
- (c) Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements due in the same year.

The City's water net revenues for the year ended June 30, 2016 are less than the required 110% of principal and interest on bonds falling due during the year.



**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 3. Bonds and Notes Payable (continued)**

The City has entered into an escrow deposit agreement with an escrow agent to provide for all future debt service payments on certain bonds. The escrow agent will purchase direct obligations (government securities) to be used to provide for the debt service payments. As a result, the bonds are considered defeased and the liability has been removed from the statement of indebtedness. On June 30, 2016, \$1,100,000 of bonds outstanding are considered defeased.

**Note 4. Conduit Debt Obligations**

In the past, the City assisted in several issues of industrial revenue bonds, issued for the purposes of constructing privately owned manufacturing and other related facilities within the City. The bonds are not direct or contingent liabilities of the City, as the revenue from lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can look only to these sources for repayment. The following are the outstanding issues in which the City assisted:

<u>Company</u>	<u>Type</u>	<u>Year Issued</u>	<u>Amount Issued</u>
Fort Madison Community Hospital	Revenue	1996	\$ 3,500,000
WOW, LLC	Revenue	1999	\$ 1,450,000

The City assumes many of these issues have been repaid, but has been unable to determine actual amounts remaining at June 30, 2016.

**Note 5. Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risk estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 5. Risk Management** (continued)

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$104,305.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability for risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of the risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation and various types of liability insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 6. Compensated Absences**

City employees, with the exceptions of fire, library and water department personnel, accumulate sick leave hours at a rate of 14 hours per month up to a maximum of 1,000 hours; public works and police department have a maximum of 1,160 hours. Fire and water department employees accumulate 12 hours per month up to a maximum of 1,000 hours. Accumulated sick leave is not payable upon termination, retirement or death, with the exception of the following departments: the water department employees hired before June 30, 2008 and with 20 or more years of service upon retirement may elect to be paid for up to 600 hours of unused and accumulated sick leave or use the sick leave to purchase health insurance from the City. The public works and police department can receive 200 hours of sick leave upon retirement with 20 or more years of service. The library department with 20 or more years of service upon retirement may elect to be paid for up to 600 hours of unused and accumulated sick leave or use the sick leave to purchase health insurance from the City. Non-bargaining individuals hired before July 1, 2005 can receive all of their sick leave upon retirement to purchase health insurance from the City.

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2016, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 402,076
Sick leave	<u>276,738</u>
	<u>\$ 678,814</u>

This liability has been computed based on rates of pay as of July 1, 2016.

**Note 7. Pension and Retirement Benefits**

Plan Description

Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 7. Pension and Retirement Benefits (continued)**

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 7. Pension and Retirement Benefits (continued)**

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$245,788.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$1,896,289 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.038383%, which was a decrease of 0.000554% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City pension expense, deferred outflows of resources and deferred inflows of resources totaled \$159,890, \$364,583 and \$441,543 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

**City of Fort Madison**  
**Notes to Financial Statements**

**Note 7. Pension and Retirement Benefits** (continued)

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100 %</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 3,320,060	\$ 1,896,289	\$ 694,523

Pension Plan Fiduciary Net Position

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 8. Municipal Fire and Police Retirement System of Iowa (MFPRSI)**

Plan Description

MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at [www.mfprsi.org](http://www.mfprsi.org).

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of member's average final compensation for each additional year of service, up to a maximum of 8 years. Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members at least 55 years of age with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. When electing to participate in DROP, the member signs a contract stating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 8. Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued)**

Disability and Death Benefits

Disability benefits may be either accidental and ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation for those with 5 or more years of service or the member's service retirement benefit calculation amount and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa, which provides a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions

Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2016.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa, the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 30.41% for the year ended June 30, 2016.

The City's contributions to MFPRSI for the year ended June 30, 2016 totaled \$534,874.

If approved by the State Legislature, state appropriations may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa, therefore, is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*.

There were no state appropriations to MFPRSI during the fiscal year ended June 30, 2016.



**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 8. Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued)**

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$3,338,280 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2015, the City's proportion was 0.710554%, which was an increase of 0.027182% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$334,515, \$905,388 and \$913,794, respectively.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00%
Salary increases	4.50 to 15.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates were based weighting equal to 1/12 of the 1971 GAM table and 11/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

**City of Fort Madison**  
**Notes to Financial Statements**

**Note 8. Municipal Fire and Police Retirement System of Iowa (MFPRSI) (continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	7.0 %	3.8 %
Emerging markets debt	3.0	6.5
Domestic equities	12.5	6.0
Master limited partnerships (MLP)	5.0	8.5
International equities	<u>12.5</u>	7.0
Core investments	40.0	
Tactical asset allocation	35.0	6.0
Private equity	15.0	9.8
Private non-core real estate	5.0	9.3
Private core real estate	<u>5.0</u>	6.8
Real estate	<u>10.0</u>	
Total	<u>100.0 %</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City's contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 5,812,050	\$ 3,338,283	\$ 1,282,872

MFPRSI's Fiduciary Net Position

Detailed information about MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at [www.mfprsi.org](http://www.mfprsi.org).

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 9. Self-Insured Health Benefits**

The City of Fort Madison has agreed to provide certain health benefits to its employees. The City pays 96% of the premium for health insurance for all full-time employees selecting single coverage. For full-time employees selecting family coverage, the City pays 92% of the premium. The City reimburses employees for their deductible after the employees have reached their out-of-pocket maximum of \$1,500 per individual and \$3,000 per family. The City's total reimbursement liability for the period January 1, 2016 to December 31, 2016 is \$706,500. The City's cost related to this reimbursement for the year ended June 30, 2016 was \$101,355.

**Note 10. Deficit Balance**

At June 30, 2016, Water and Flood Damage Funds had deficit balances of \$51,770 and \$920,710, respectively. The deficit balances were the result of costs incurred prior to availability of funds. These deficits will be eliminated upon receipt of loan and grant monies.

**Note 11. Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 84 active and 8 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$442 for single coverage and \$1,308 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2016, the City contributed \$1,249,589 and plan members eligible for benefits contributed \$125,048 to the plan.

**Note 12. Revolving Loan Fund**

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City transfers funds to SEIRPC who will administer and manage the revolving loan fund. The amounts to be transferred shall not exceed \$200,000. At June 30, 2016, \$21,255 was outstanding on these loans to businesses. At June 30, 2016, SEIRPC holds cash of \$172,204 for the City which represents loan repayments received from participating businesses and is available to fund future commercial business growth loans.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 13. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to:	
General	\$ 2,766,571
Capital projects	<u>107,932</u>
	<u>\$ 2,874,503</u>
Transfer from:	
Road use	15,000
Local option sales tax	1,289,665
Nonmajor governmental	1,424,830
Water	60,000
Sewer	45,000
Solid waste	<u>40,008</u>
	<u>\$ 2,874,503</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**Note 14. Post-Closure Care Costs**

The City was previously a member of the Lee County Solid Waste Commission, a political subdivision pursuant to the Code of Iowa Chapter 28E. The landfill was closed in 1990 and is required to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City paid \$19,613 for the year ended June 30, 2016 for these costs.

**Note 15. Commitments**

The City has committed to the following significant projects as of June 30, 2016:

Waste water treatment plant rehab	\$ 19,927,000
Street improvements	3,290,000
Sewer projects	1,915,000
Amtrak platform	1,000,000
Sanitation truck	125,050

The City has designated four months of operational costs, or \$1,200,000, for future stabilization efforts. This balance is included within the General fund as required by GASB 54.

**City of Fort Madison**  
**Notes to Financial Statements**

**Note 16. Cash Basis Fund Balances**

The detail of the governmental fund cash basis fund balances for the year ended June 30, 2016 is as follows:

	<u>General</u>	<u>Road Use</u>	<u>Sales Tax</u>	Urban Renewal <u>TIF</u>	Debt <u>Service</u>	Capital <u>Projects</u>	Other Nonmajor <u>Governmental</u>	<u>Total</u>
Nonspendable for cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 209,153	\$ 209,153
Restricted for:								
Road use purposes	-	180,372	-	-	-	-	-	180,372
Tax referendum purposes	-	-	634,026	-	-	-	-	634,026
Urban renewal projects	-	-	-	401,694	-	-	-	401,694
Debt service	-	-	-	-	19,766	-	-	19,766
Employee benefits	-	-	-	-	-	-	445,496	445,496
Police/fire retirement	-	-	-	-	-	-	164,690	164,690
Library building maintenance	-	-	-	-	-	-	9,432	9,432
Park improvements	-	-	-	-	-	444,000	-	444,000
Street improvements	-	-	-	-	-	2,429,898	-	2,429,898
Other purposes	-	-	-	-	-	-	49,083	49,083
Assigned to:								
Highway 61 improvements	-	-	-	-	-	12,997,887	-	12,997,887
Library donations	-	-	-	-	-	-	36,803	36,803
Emergency tax levy	-	-	-	-	-	-	28,467	28,467
Flood damage	-	-	-	-	-	-	50,475	50,475
Hotel/motel tax	-	-	-	-	-	-	173,570	173,570
Grant opportunities	-	-	-	-	-	-	221,237	221,237
Other purposes	-	-	-	-	-	44,013	432,556	476,569
Unassigned	<u>2,035,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(443,026)</u>	<u>(1,058,480)</u>	<u>533,976</u>
Total	<u>\$ 2,035,482</u>	<u>\$ 180,372</u>	<u>\$ 634,026</u>	<u>\$ 401,694</u>	<u>\$ 19,766</u>	<u>\$ 15,472,772</u>	<u>\$ 762,482</u>	<u>\$ 19,506,594</u>

## **OTHER INFORMATION**

**City of Fort Madison**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Other Information**  
**Year Ended June 30, 2016**

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	<u>Budget Original</u>	<u>Budget Final</u>	Final to Actual Variance Favorable (Unfavorable)
Receipts:							
Property tax	\$ 4,337,045	\$ -	\$ -	\$ 4,337,045	\$ 4,220,947	\$ 4,220,947	\$ 116,098
Tax increment financing collections	423,262	-	-	423,262	445,100	445,100	(21,838)
Other taxes	1,853,720	-	-	1,853,720	1,685,254	1,907,034	(53,314)
Use of money and property	208,113	10,553	-	218,666	167,370	167,370	51,296
Licenses and permits	149,217	-	-	149,217	131,440	131,440	17,777
Intergovernmental	3,091,196	868,561	-	3,959,757	3,087,185	3,270,685	689,072
Charges for services	157,991	6,770,060	154,481	6,773,570	6,150,780	6,489,180	284,390
Special assessments	15,461	29,479	-	44,940	44,870	44,870	70
Miscellaneous	<u>1,117,635</u>	<u>56,382</u>	<u>-</u>	<u>1,174,017</u>	<u>1,939,390</u>	<u>2,322,660</u>	<u>(1,148,643)</u>
Total receipts	<u>11,353,640</u>	<u>7,735,035</u>	<u>154,481</u>	<u>18,934,194</u>	<u>17,872,336</u>	<u>18,999,286</u>	<u>(65,092)</u>
Disbursements:							
Public safety	3,807,048	49,578	49,578	3,807,048	4,017,630	4,057,420	250,372
Public works	1,294,476	7,109	7,109	1,294,476	1,221,710	1,398,710	104,234
Health and social services	20,526	-	-	20,526	-	20,530	4
Culture and recreation	1,302,725	5,098	5,098	1,302,725	1,377,110	1,397,980	95,255
Community and economic development	1,459,681	1,284	1,284	1,459,681	1,513,010	1,711,510	251,829
General government	1,210,134	10,534	10,534	1,210,134	2,324,220	2,707,610	1,497,476
Debt service	2,716,924	-	-	2,716,924	1,126,400	3,286,400	569,476
Capital projects	2,761,615	-	-	2,761,615	2,518,570	3,748,570	986,955
Business type	<u>-</u>	<u>11,976,977</u>	<u>27,752</u>	<u>11,949,225</u>	<u>9,199,550</u>	<u>11,544,150</u>	<u>(405,075)</u>
Total disbursements	<u>14,573,129</u>	<u>12,050,580</u>	<u>101,355</u>	<u>26,522,354</u>	<u>23,298,200</u>	<u>29,872,880</u>	<u>3,350,526</u>
Excess (deficiency) of receipts over (under) disbursements	(3,219,489)	(4,315,545)	53,126	(7,588,160)	(5,425,864)	(10,873,594)	(3,285,434)
Other financing sources, net	<u>2,268,428</u>	<u>4,328,806</u>	<u>-</u>	<u>6,597,234</u>	<u>3,090,900</u>	<u>7,257,100</u>	<u>659,866</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(951,061)	13,261	53,126	(990,926)	(2,334,964)	(3,616,494)	(2,625,568)
Cash balances beginning of year	<u>20,457,655</u>	<u>1,647,171</u>	<u>168,058</u>	<u>21,936,768</u>	<u>21,966,823</u>	<u>21,966,823</u>	<u>30,055</u>
Cash balances end of year	<u>\$ 19,506,594</u>	<u>\$ 1,660,432</u>	<u>\$ 221,184</u>	<u>\$ 20,945,842</u>	<u>\$ 19,631,859</u>	<u>\$ 18,350,329</u>	<u>\$ (2,595,513)</u>

See accompanying independent auditor's report.

**City of Fort Madison**  
**Notes to Other Information - Budgetary Reporting**  
**June 30, 2016**

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The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursement known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$6,574,680. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the business type function.



**City of Fort Madison**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Iowa Public Employees' Retirement System**  
**For the Last Two Years\***  
**(In Thousands)**  
**Other Information**

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	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.038383%	0.038156%
City's proportionate share of the net pension liability	\$1,896	\$1,544
City's covered-employee payroll	\$2,632	\$2,542
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.04%	60.74%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of the City Contributions**  
**Iowa Public Employees' Retirement System**  
**Last 10 Fiscal Years**  
**(In Thousands)**  
**Other Information**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutorily required contribution	\$ 244	\$ 235	\$ 227	\$ 223	\$ 213	\$ 178	\$ 175	\$ 162	\$ 149	\$ 132
Contributions in relation to the statutorily required contribution	<u>(244)</u>	<u>(235)</u>	<u>(227)</u>	<u>(223)</u>	<u>(213)</u>	<u>(178)</u>	<u>(175)</u>	<u>(162)</u>	<u>(149)</u>	<u>(132)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,732	\$ 2,632	\$ 2,542	\$ 2,572	\$ 2,639	\$ 2,561	\$ 2,632	\$ 2,551	\$ 2,463	\$ 2,296
Contributions as a percentage of covered- employee payroll	8.93 %	8.93 %	8.93 %	8.67 %	8.07 %	6.95 %	6.65 %	6.35 %	6.05 %	5.75 %

See accompanying independent auditor's report.

**City of Fort Madison**  
**Notes to Other Information – IPERS Pension Liability**  
**Year ended June 30, 2016**

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*Changes of benefit terms:*

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

*Changes of assumptions:*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

**City of Fort Madison**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Municipal Fire and Police Retirement System of Iowa**  
**For the Last Two Years\***  
**(In Thousands)**  
**Other Information**

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	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.7105540%	0.6833720%
City's proportionate share of the net pension liability	\$3,338	\$2,477
City's covered-employee payroll	\$1,865	\$1,743
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	178.98%	142.11%
Plan fiduciary net position as a percentage of the total pension liability	83.04%	86.27%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of City Contributions**  
**Municipal Fire and Police Retirement System of Iowa**  
**Last 10 Fiscal Years**  
**(In Thousands)**  
**Other Information**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutorily required contribution	\$ 535	\$ 567	\$ 525	\$ 433	\$ 422	\$ 320	\$ 271	\$ 281	\$ 360	\$ 412
Contributions in relation to the statutorily required contribution	<u>(535)</u>	<u>(567)</u>	<u>(525)</u>	<u>(433)</u>	<u>(422)</u>	<u>(320)</u>	<u>(271)</u>	<u>(281)</u>	<u>(360)</u>	<u>(412)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City's covered-employee payroll	\$ 1,927	\$ 1,865	\$ 1,743	\$ 1,658	\$ 1,704	\$ 1,608	\$ 1,594	\$ 1,499	\$ 1,413	\$ 1,485
Contributions as a percentage of covered- employee payroll	27.77 %	30.41 %	30.12 %	26.12 %	24.76 %	19.90 %	17.00 %	18.75 %	25.48 %	27.75 %

See accompanying independent auditor's report.

**City of Fort Madison**  
**Notes to Other Information – MFPRSI Pension Liability**  
**Year ended June 30, 2016**

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Changes of benefit terms:

There were no significant changes of benefit terms.

Changes of assumptions:

Effective July 1, 2014, two additional steps were taken to phase in the 1994 Group Annuity Mortality Table for post retirement mortality. The two additional steps result in a weighting of 2/12 of the 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

## **SUPPLEMENTARY INFORMATION**

**City of Fort Madison**  
**Schedule of Cash Receipts, Disbursements**  
**and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the Year Ended June 30, 2016**

	Special Revenue										Permanent	
	Unrestricted Gifts and Misc	Hotel/Motel Tax	Library Donations	Targeted Jobs	Emergency Tax Levy	Public Safety Grants	Grant Opportunity	Flood Damage	Police/Fire Retirement	Employee Benefits	Cemetery Perpetual Care	Total
Receipts:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 70,770	\$ -	\$ -	\$ -	\$ 510,017	\$ 919,306	\$ -	\$ 1,500,093
Other city taxes	28	219,647	-	-	2,318	-	-	-	10,704	30,108	-	262,805
Use of money and property	1,012	1,186	320	-	-	-	1,300	-	2,040	229	-	6,087
Intergovernmental	19,106	-	-	797,355	3,579	12,700	-	-	25,496	46,484	-	904,720
Charges for service	42,077	-	-	-	-	-	-	-	-	-	-	42,077
Miscellaneous	422,229	-	7,444	-	-	-	300,001	95,825	-	-	1,849	827,348
Total receipts	<u>484,452</u>	<u>220,833</u>	<u>7,764</u>	<u>797,355</u>	<u>76,667</u>	<u>12,700</u>	<u>301,301</u>	<u>95,825</u>	<u>548,257</u>	<u>996,127</u>	<u>1,849</u>	<u>3,543,130</u>
Disbursements:												
Public safety	75,178	-	-	-	85,112	13,363	-	-	-	-	-	173,653
Health and social services	20,526	-	-	-	-	-	-	-	-	-	-	20,526
Culture and recreation	332,575	-	47,286	-	-	-	-	-	-	-	-	379,861
Community and economic development	-	-	-	852,565	-	-	101,825	-	-	-	-	954,390
General government	50,210	110,411	-	-	-	-	-	273,733	-	2,615	-	436,969
Total disbursements	<u>478,489</u>	<u>110,411</u>	<u>47,286</u>	<u>852,565</u>	<u>85,112</u>	<u>13,363</u>	<u>101,825</u>	<u>273,733</u>	<u>-</u>	<u>2,615</u>	<u>-</u>	<u>1,965,399</u>
Excess (deficiency) of receipts over (under) disbursements	<u>5,963</u>	<u>110,422</u>	<u>(39,522)</u>	<u>(55,210)</u>	<u>(8,445)</u>	<u>(663)</u>	<u>199,476</u>	<u>(177,908)</u>	<u>548,257</u>	<u>993,512</u>	<u>1,849</u>	<u>1,577,731</u>
Other financing sources (uses):												
Operating transfer in (out)	67,897	(74,077)	-	-	-	-	-	-	(534,874)	(883,776)	-	(1,424,830)
Total other	<u>67,897</u>	<u>(74,077)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(534,874)</u>	<u>(883,776)</u>	<u>-</u>	<u>(1,424,830)</u>
Change in cash balances	73,860	36,345	(39,522)	(55,210)	(8,445)	(663)	199,476	(177,908)	13,383	109,736	1,849	152,901
Cash balances beginning of year	<u>266,092</u>	<u>137,225</u>	<u>85,757</u>	<u>55,280</u>	<u>36,912</u>	<u>54,985</u>	<u>21,761</u>	<u>(742,802)</u>	<u>151,307</u>	<u>335,760</u>	<u>207,304</u>	<u>609,581</u>
Cash balances end of year	<u>\$ 339,952</u>	<u>\$ 173,570</u>	<u>\$ 46,235</u>	<u>\$ 70</u>	<u>\$ 28,467</u>	<u>\$ 54,322</u>	<u>\$ 221,237</u>	<u>\$ (920,710)</u>	<u>\$ 164,690</u>	<u>\$ 445,496</u>	<u>\$ 209,153</u>	<u>\$ 762,482</u>
<b>Cash Basis Fund Balances</b>												
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 209,153	\$ 209,153
Restricted	-	-	9,432	-	-	49,083	-	-	164,690	445,496	-	668,701
Assigned	426,497	173,570	36,803	70	28,467	5,989	221,237	50,475	-	-	-	943,108
Unassigned	<u>(86,545)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(750)</u>	<u>-</u>	<u>(971,185)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,058,480)</u>
<b>Total cash basis fund balances</b>	<u>\$ 339,952</u>	<u>\$ 173,570</u>	<u>\$ 46,235</u>	<u>\$ 70</u>	<u>\$ 28,467</u>	<u>\$ 54,322</u>	<u>\$ 221,237</u>	<u>\$ (920,710)</u>	<u>\$ 164,690</u>	<u>\$ 445,496</u>	<u>\$ 209,153</u>	<u>\$ 762,482</u>

See accompanying independent auditor's report.



**City of Fort Madison**  
**Statement of Indebtedness**  
**Year Ended June 30, 2016**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
GO Bonds 2005 issue	10/05/05	3.75-4.00%	\$ 3,750,000	\$ 2,085,000	\$ -	\$ 2,085,000	\$ -	\$ 40,078	\$ -
GO Bonds 2008 issue	06/01/08	3.65-4.45%	1,690,000	1,090,000	-	125,000	965,000	43,495	-
GO Bonds 2010A issue	02/01/10	1.00-3.40%	1,350,000	725,000	-	135,000	590,000	21,790	-
GO Bonds 2013 issue	08/22/13	2.00-4.00%	6,000,000	5,755,000	-	250,000	5,505,000	188,613	-
GO Refunding Bonds	11/18/2015	2.00%	2,095,000	-	2,095,000	255,000	1,840,000	22,463	-
Total				<u>9,655,000</u>	<u>2,095,000</u>	<u>2,850,000</u>	<u>8,900,000</u>	<u>316,439</u>	<u>-</u>
Revenue bonds/notes:									
Sewer revenue	04/19/04	3.00%	700,000	366,000	-	36,000	330,000	6,405	-
Sewer revenue	10/01/08	3.00%	2,000,000	1,075,000	-	69,000	1,006,000	32,250	-
Sewer revenue	05/08/15	0.00%	1,571,575	-	1,321,018	-	1,321,018	-	-
Sewer revenue	05/29/15	2.75%	3,348,000	1,665,818	1,569,389	70,000	3,165,207	80,945	-
Sewer revenue	12/18/15	1.75%	1,978,000	-	1,583,407	81,000	1,502,407	6,622	-
Water revenue	10/14/09	3.00%	9,672,000	9,071,000	-	214,000	8,857,000	272,130	-
Water revenue	11/18/09	3.00%	1,306,000	778,000	-	41,000	737,000	23,340	-
Water revenue	12/23/09	3.00%	3,800,000	1,999,000	-	50,000	1,949,000	59,970	-
Water revenue	05/11/11	3.00%	2,700,000	2,195,000	-	55,000	2,140,000	65,850	-
Water revenue	10/26/11	3.00%	384,000	338,000	-	9,000	329,000	10,140	-
Total				<u>17,487,818</u>	<u>4,473,814</u>	<u>625,000</u>	<u>21,336,632</u>	<u>557,652</u>	<u>-</u>
Capital loan notes:									
Capital loan note - fire truck	07/15/12	3.06%	203,544	<u>149,472</u>	<u>-</u>	<u>28,090</u>	<u>121,382</u>	<u>4,653</u>	<u>-</u>
Promissory note:									
Sustainability loan	04/20/12	3.00%	4,500	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>488</u>
Urban renewal TIF:									
Bluff subdivision	07/01/11	5.00%	291,208	<u>266,208</u>	<u>-</u>	<u>11,000</u>	<u>255,208</u>	<u>13,800</u>	<u>-</u>
Total of all debt				<u>\$ 27,562,998</u>	<u>\$ 6,568,814</u>	<u>\$ 3,514,090</u>	<u>\$ 30,617,722</u>	<u>\$ 892,544</u>	<u>\$ 488</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Bond and Note Maturities  
June 30, 2016**

Year Ending June 30,	<b>General Obligation Bonds</b>							
	Street Improvement		General Obligation Bonds		General Obligation Bonds		General Obligation Refunding Bonds	
	Issued June 1, 2008		Issued February 1, 2010		Issued August 22, 2013		Issued November 18, 2015	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2017	3.75%	\$ 125,000	2.80%	\$ 140,000	2.00%	\$ 255,000	2.00%	\$ 215,000
2018	3.80%	140,000	3.00%	145,000	2.00%	260,000	2.00%	220,000
2019	3.90%	140,000	3.25%	150,000	2.00%	265,000	2.00%	190,000
2020	4.00%	150,000	3.40%	155,000	3.00%	270,000	2.00%	190,000
2021	4.10%	95,000	-	-	3.00%	280,000	2.00%	190,000
2022	4.15%	40,000	-	-	3.00%	290,000	2.00%	205,000
2023	4.20%	40,000	-	-	3.00%	300,000	2.00%	205,000
2024	4.25%	45,000	-	-	3.00%	305,000	2.00%	210,000
2025	4.30%	45,000	-	-	3.25%	315,000	2.00%	215,000
2026	4.35%	45,000	-	-	3.50%	325,000	-	-
2027	4.40%	50,000	-	-	3.50%	335,000	-	-
2028	4.45%	50,000	-	-	3.75%	350,000	-	-
2029	-	-	-	-	4.00%	360,000	-	-
2030	-	-	-	-	4.00%	375,000	-	-
2031	-	-	-	-	4.00%	390,000	-	-
2032	-	-	-	-	4.00%	405,000	-	-
2033	-	-	-	-	4.00%	425,000	-	-
		<u>\$ 965,000</u>		<u>\$ 590,000</u>		<u>\$ 5,505,000</u>		<u>\$ 1,840,000</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Bond and Note Maturities  
June 30, 2016**

<b>Revenue Bonds</b>										
Year Ending June 30,	Sewer		Sewer		Sewer		Sewer		Sewer	
	Issued April 19, 2004		Issued October 1, 2008		Issued May 8, 2015		Issued May 29, 2015		Issued December 18, 2015	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2017	3.00%	\$ 37,000	3.00%	\$ 71,000		\$ -	2.75%	\$ 73,000	1.75%	\$ 83,000
2018	3.00%	38,000	3.00%	73,000	0.00%	1,321,018	2.75%	75,000	1.75%	85,000
2019	3.00%	39,000	3.00%	75,000		-	2.75%	77,000	1.75%	86,000
2020	3.00%	41,000	3.00%	77,000		-	2.75%	79,000	1.75%	88,000
2021	3.00%	42,000	3.00%	80,000		-	2.75%	82,000	1.75%	90,000
2022	3.00%	43,000	3.00%	82,000		-	2.75%	84,000	1.75%	92,000
2023	3.00%	44,000	3.00%	85,000		-	2.75%	87,000	1.75%	94,000
2024	3.00%	46,000	3.00%	87,000		-	2.75%	89,000	1.75%	95,000
2025		-	3.00%	90,000		-	2.75%	92,000	1.75%	97,000
2026		-	3.00%	93,000		-	2.75%	95,000	1.75%	99,000
2027		-	3.00%	95,000		-	2.75%	97,000	1.75%	101,000
2028		-	3.00%	98,000		-	2.75%	100,000	1.75%	103,000
2029		-		-		-	2.75%	103,000	1.75%	105,000
2030		-		-		-	2.75%	106,000	1.75%	108,000
2031		-		-		-	2.75%	110,000	1.75%	110,000
2032		-		-		-	2.75%	113,000	1.75%	66,407
2033		-		-		-	2.75%	116,000		-
2034		-		-		-	2.75%	120,000		-
2035		-		-		-	2.75%	123,000		-
2036		-		-		-	2.75%	127,000		-
2037		-		-		-	2.75%	131,000		-
2038		-		-		-	2.75%	135,000		-
2039		-		-		-	2.75%	139,000		-
2040		-		-		-	2.75%	143,000		-
2041		-		-		-	2.75%	147,000		-
2042		-		-		-	2.75%	152,000		-
2043		-		-		-	2.75%	156,000		-
2044		-		-		-	2.75%	161,000		-
2045		-		-		-	2.75%	53,207		-
		<u>\$ 330,000</u>		<u>\$ 1,006,000</u>		<u>\$ 1,321,018</u>		<u>\$ 3,165,207</u>		<u>\$ 1,502,407</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Bond and Note Maturities  
June 30, 2016**

<b>Revenue Bonds</b>										
Year Ending June 30,	Water		Water		Water		Water		Water	
	Issued October 14, 2009		Issued November 18, 2009		Issued December 23, 2009		Issued May 11, 2011		Issued October 26, 2011	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2017	3.00%	\$ 221,000	3.00%	\$ 57,000	3.00%	\$ 93,000	3.00%	\$ 64,000	3.00%	\$ 10,000
2018	3.00%	228,000	3.00%	59,000	3.00%	96,000	3.00%	66,000	3.00%	10,000
2019	3.00%	235,000	3.00%	61,000	3.00%	99,000	3.00%	68,000	3.00%	10,000
2020	3.00%	243,000	3.00%	63,000	3.00%	102,000	3.00%	70,000	3.00%	11,000
2021	3.00%	251,000	3.00%	65,000	3.00%	106,000	3.00%	73,000	3.00%	11,000
2022	3.00%	259,000	3.00%	67,000	3.00%	109,000	3.00%	75,000	3.00%	11,000
2023	3.00%	267,000	3.00%	70,000	3.00%	113,000	3.00%	78,000	3.00%	12,000
2024	3.00%	276,000	3.00%	72,000	3.00%	116,000	3.00%	80,000	3.00%	12,000
2025	3.00%	285,000	3.00%	74,000	3.00%	120,000	3.00%	83,000	3.00%	12,000
2026	3.00%	294,000	3.00%	77,000	3.00%	124,000	3.00%	85,000	3.00%	13,000
2027	3.00%	304,000	3.00%	72,000	3.00%	128,000	3.00%	88,000	3.00%	13,000
2028	3.00%	314,000	-	-	3.00%	132,000	3.00%	91,000	3.00%	14,000
2029	3.00%	324,000	-	-	3.00%	136,000	3.00%	94,000	3.00%	14,000
2030	3.00%	334,000	-	-	3.00%	141,000	3.00%	97,000	3.00%	15,000
2031	3.00%	433,000	-	-	3.00%	145,000	3.00%	100,000	3.00%	15,000
2032	3.00%	447,000	-	-	3.00%	150,000	3.00%	103,000	3.00%	15,000
2033	3.00%	462,000	-	-	3.00%	39,000	3.00%	107,000	3.00%	16,000
2034	3.00%	477,000	-	-	-	-	3.00%	110,000	3.00%	16,000
2035	3.00%	492,000	-	-	-	-	3.00%	114,000	3.00%	17,000
2036	3.00%	508,000	-	-	-	-	3.00%	117,000	3.00%	18,000
2037	3.00%	525,000	-	-	-	-	3.00%	121,000	3.00%	18,000
2038	3.00%	542,000	-	-	-	-	3.00%	125,000	3.00%	19,000
2039	3.00%	559,000	-	-	-	-	3.00%	129,000	3.00%	19,000
2040	3.00%	<u>577,000</u>	-	<u>-</u>	-	<u>-</u>	3.00%	<u>2,000</u>	3.00%	<u>8,000</u>
		<u>\$ 8,857,000</u>		<u>\$ 737,000</u>		<u>\$ 1,949,000</u>		<u>\$ 2,140,000</u>		<u>\$ 329,000</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Bond and Note Maturities  
June 30, 2016**

Year Ending June 30,	<u>Capital Loan Note</u>		<u>Promissory Note</u>		<u>Urban Renewal TIFs</u>	
	<u>Fire Truck</u>		<u>Sustainability Loan</u>		<u>Bluff Subdivision</u>	
	<u>Issued July 15, 2012</u>		<u>Issued April 20, 2012</u>		<u>Issued July 1, 2011</u>	
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>
2017	3.06%	\$ 28,965		\$ 4,500	5.00%	\$ 12,000
2018	3.06%	29,866		-	5.00%	12,000
2019	3.06%	30,796		-	5.00%	13,000
2020	3.06%	31,755		-	5.00%	14,000
2021		-		-	5.00%	14,000
2022		-		-	5.00%	15,000
2023		-		-	5.00%	16,000
2024		-		-	5.00%	17,000
2025		-		-	5.00%	18,000
2026		-		-	5.00%	18,000
2027		-		-	5.00%	19,000
2028		-		-	5.00%	20,000
2029		-		-	5.00%	21,000
2030		-		-	5.00%	22,000
2031		-		-	5.00%	24,208
		<u>\$ 121,382</u>		<u>\$ 4,500</u>		<u>\$ 255,208</u>

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of Receipts by Source and Disbursements by Function-**  
**All Governmental Funds**

	Year Ended June 30,									
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:										
Property tax	\$ 4,337,045	\$ 4,121,570	\$ 3,817,112	\$ 3,680,029	\$ 3,499,904	\$ 3,423,622	\$ 3,329,360	\$ 3,423,873	\$ 3,401,751	\$ 3,296,898
Tax increment financing	423,262	814,262	818,967	799,143	907,127	941,649	573,331	438,351	409,393	345,868
Other city tax	1,853,720	1,780,032	1,438,713	1,393,043	1,414,245	1,269,520	1,307,743	1,336,713	1,158,414	1,246,721
Use of money and property	208,113	229,911	202,213	124,293	185,822	178,113	172,748	216,485	215,412	266,201
Licenses and permits	149,217	134,912	129,398	124,084	95,787	132,976	104,821	163,030	110,357	133,055
Intergovernmental	3,091,196	2,642,137	3,138,707	2,918,645	3,603,496	2,736,801	2,236,864	2,430,503	2,573,650	1,850,646
Charges for service	157,991	152,268	182,228	197,800	205,734	177,793	177,517	170,632	177,767	221,502
Special assessments	15,461	11,145	20,071	21,040	5,233	-	-	-	-	-
Miscellaneous	<u>1,117,635</u>	<u>859,569</u>	<u>14,963,154</u>	<u>1,143,251</u>	<u>723,103</u>	<u>1,099,374</u>	<u>856,632</u>	<u>728,673</u>	<u>2,085,617</u>	<u>813,407</u>
Total	<u>\$11,353,640</u>	<u>\$10,745,806</u>	<u>\$24,710,563</u>	<u>\$10,401,328</u>	<u>\$10,640,451</u>	<u>\$ 9,959,848</u>	<u>\$ 8,759,016</u>	<u>\$ 8,908,260</u>	<u>\$10,132,361</u>	<u>\$ 8,174,298</u>
Disbursements:										
Public safety	\$ 3,807,048	\$ 3,775,098	\$ 3,567,470	\$ 3,639,192	\$ 3,505,490	\$ 3,247,480	\$ 3,119,344	\$ 3,051,021	\$ 3,183,137	\$ 3,139,372
Public works	1,294,476	1,212,398	1,187,424	1,144,276	1,143,332	1,192,716	1,114,132	1,032,424	1,021,522	924,372
Health and social services	20,526	30,316	47,497	39,639	39,668	40,644	38,434	38,786	39,359	41,334
Culture and recreation	1,302,725	1,172,275	1,161,799	1,033,637	1,068,703	1,090,228	1,034,028	1,020,231	967,006	908,384
Community and economic development	1,459,681	2,286,452	3,598,658	2,212,896	2,168,257	1,232,442	1,093,693	1,180,420	1,282,920	2,456,375
General government	1,210,134	1,697,903	1,321,169	806,766	709,288	812,807	819,443	813,101	524,451	667,301
Debt service	2,716,924	564,916	261,091	224,285	203,125	266,929	265,293	609,529	625,889	559,670
Capital projects	<u>2,761,615</u>	<u>2,386,241</u>	<u>2,149,126</u>	<u>1,461,302</u>	<u>2,135,365</u>	<u>2,033,886</u>	<u>836,839</u>	<u>830,197</u>	<u>3,380,235</u>	<u>2,085,065</u>
Total	<u>\$14,573,129</u>	<u>\$13,125,599</u>	<u>\$13,294,234</u>	<u>\$10,561,993</u>	<u>\$10,973,228</u>	<u>\$ 9,917,132</u>	<u>\$ 8,321,206</u>	<u>\$ 8,575,709</u>	<u>\$11,024,519</u>	<u>\$10,781,873</u>

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Expenditures</u>
U.S. Department of Transportation programs:			
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0036-008-2014	\$ <u>5,874</u>
Pass-through from Iowa Department of Transportation:			
Avenue E - 22nd St. to 24th St.	20.205	STP-U-2697(623)--70-56	325,055
Avenue E - 18th to 20th St.	20.205	STP-U-2697(625)--70-56	<u>21,052</u>
			<u>346,107</u>
Pass-through from Iowa Department of Public Safety/Governor's Traffic Safety Bureau:			
Impaired Driving Countermeasures Grant	20.616	PAP 15-405d-M6OT, Task 22-00-00	5,813
Impaired Driving Countermeasures Grant	20.616	PAP 16-405d-M6OT, Task 15-00-00	<u>7,242</u>
			<u>13,055</u>
Subtotal U.S. Department of Transportation pass-through programs			<u>359,162</u>
Total U.S. Department of Transportation			<u>365,036</u>
			<u>-</u>
U.S. Department of Homeland Security program:			
Assistance for Firefighters Grant Program	97.044	EMW-2015-FO-02605	<u>750</u>
Pass-through from Iowa Homeland Security and Emergency Management Division			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	#4234-DR-IA	60,126
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	#4119-DR-IA	<u>105,095</u>
			<u>165,221</u>
Total U.S. Department of Homeland Security			<u>165,971</u>
U.S. Department of Commerce:			
Economic Development Division - Investment for Public Works and Economic Development Facilities	11.300	05-01-05245	<u>522,186</u>
U.S. Department of Justice programs:			
Bureau of Justice Assistance - Bulletproof Vest Partnership Program	16.607	Application ID 15076225	<u>809</u>
Pass-through from Iowa Governor's Office of Drug Control Policy and Lee County, Iowa			
Byrne/Iowa - Justice Assistance Grant (JAG)	16.738	Grant#13-JAG-112334	14,820
Byrne/Iowa - Justice Assistance Grant (JAG)	16.738	Grant#13-2013-DJ-BX-0821	<u>712</u>
			<u>15,532</u>
Public Safety Partnership and Community Policing Grants - Methamphetamine Drug Hot Spots Grant Program	16.710	Grant#14 - HotSpots-11	<u>2,406</u>
Subtotal U.S. Department of Justice pass-through programs			<u>17,938</u>
Total U.S. Department of Justice			<u>18,747</u>
Total expenditures of federal awards			\$ <u><u>1,071,940</u></u>

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

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**Basis of Presentation** - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Fort Madison under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is presented in accordance with the requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Fort Madison, it is not intended to and does not present the financial position, changes in financial position or cash flows of City of Fort Madison.

**Summary of Significant Accounting Policies** - Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

See accompanying independent auditor's report.



**City of Fort Madison  
Miscellaneous Statistical Section  
Major Area Employers**

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<u>Name</u>	<u>Product</u>	<u>Approximate Number of Employees</u>
Siemens	Blades for wind turbines	589
Pinnacle Foods Inc.	Canned meats and shelf stable microwavables	526
Fort Madison Community Hospital	Healthcare	432
The Scotts Co.	Consumer products for home, lawn and garden	420
Iowa State Penitentiary	Corrections facility	398
Fort Madison Community School District	Education	350
Climax Molybdenum Company, Division of AMAX	Molybdenum chemicals and sulfuric acid	201
Inhance Corporation	Healthcare - nursing homes	175
Gregory Design and Manufacturing	Design and manufacture various types of racks	156
Bagcraft Papercon	Food service packaging	95
E.I. Dupont de Nemours	Industrial and automotive sealants, finishes, resins and thinners	72
Burrows Paper Corp. Packaging Div.	Paper and packaging solutions	58

See accompanying independent auditor's report.

**City of Fort Madison**  
**Miscellaneous Statistical Section**

Date of Incorporation ..... January 18, 1838  
 Form of Government ..... Mayor-Council with Full-Time City Manager  
 Area ..... 16.58 square miles

**Fire Protection:**

Number of stations ..... 1  
 Number of employees ..... 16

**Police Protection:**

Number of stations ..... 1  
 Number of employees ..... 19

**Recreation:**

Number of parks ..... 9  
 Number of acres ..... 238.2

Cemeteries ..... 4

Airports ..... 1

**Employees:**

Permanent ..... 87  
 Permanent part time ..... 15

**Schools:**

Public ..... 4  
 Parochial ..... 2

**2015-16 Tax Rates:**

City	16.07600
County	8.42096
School	13.20383
Merged Area College	1.12916
Other	<u>.60400</u>
Total	<u>39.43395</u>

**Population:**

2010	11,051
2000	11,476
1990	11,618
1980	13,520
1970	13,966
1960	15,247
1950	14,954
1940	14,063
1930	13,779

See accompanying independent auditor's report.



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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and  
Members of the City Council  
City of Fort Madison, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Fort Madison, Iowa (City), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 21, 2017. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-16 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-16 to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*CPA Associates PC*

February 21, 2017



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**Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control Over Compliance  
Required by the Uniform Guidance**

To the Honorable Mayor and Members of the City Council  
City of Fort Madison, Iowa

Report on Compliance for Each Major Federal Program

We have audited the City of Fort Madison, Iowa's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2016. The City's major federal program is identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Other Matters

We did not identify any instances of noncompliance required to be reported in accordance with Uniform Guidance.

## Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal programs to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we considered to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as items 2016-001 (III-A-16) and 2016-002 (III-B-16) to be significant deficiencies.

The City's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*CPA Associates PC*

February 21, 2017

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2016**

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**Part I: Summary of the Independent Auditor's Results**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A material weakness and a significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) Major program was as follows:
  - CFDA Number 11.300 - U.S. Department of Commerce, Economic Development  
Division - Investment for Public Works and Economic  
Development Facilities
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Fort Madison does not qualify as a low-risk auditee.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2016**

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**Part II: Findings Related to the Financial Statements**

**INTERNAL CONTROL DEFICIENCIES:**

- II-A-16 Segregation of Duties - One important aspect of internal control structure is the segregation of duties among employees to prevent an individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements. The posting of cash receipts to the receipts journal, bank deposits, and bank reconciliations are all done by the same person. This same individual also processes payroll and prints disbursement checks which are electronically signed when printed.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

- II-B-16 Preparation of Schedule of Federal Awards - Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA), including the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under OMB Audit Requirements for Federal Awards. As a result, the schedule contains errors and omissions.

Recommendation - We recommend that the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response - The City has assigned a staff member to track all the grants (Federal and State) that the City has obtained and this ongoing assignment will be to regularly communicate with all departments and Southeast Iowa Regional Planning Commission to stay on top of any Federal grant monies that the City receives. This information can then be easily passed on to the auditors each year.

Conclusion - Response accepted.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.



**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2016**

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**Part III: Findings - Major Federal Award Programs Audit**

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 11.300: Economic Development Division - Investment for Public Works and Economic Development Facilities  
Federal Award Year: 2015  
U.S. Department of Commerce**

III-A-16 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit (2016-001) and record keeping for receipts, including those related to federal programs. See item IIA-16. Because of additional grand administration oversight, the matter is not considered to be a material weakness

III-B-16 Preparation of Schedule of Federal Awards - The City does not have a centralized process to gather (2016-002) the information required to be reported under Uniform Guidance. See item II-B-16.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**Part IV: Other Findings Related to Required Statutory Reporting**

IV-A-16 Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the business type function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation".

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, the budget will be amended prior to disbursements exceeding the budgeted amount.

Conclusion - Response accepted.

IV-B-16 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-C-16 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name and Title</u>	<u>Transaction</u>	<u>Amount</u>
Travis Seidel, Council member	Tree removal	\$ 1,429

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the tree removal transaction does not appear to represent a conflict of interest since the total of each transaction was less than \$1,500 during the fiscal year.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2016**

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**Part IV: Other Findings Related to Required Statutory Reporting (continued)**

- IV-D-16 Revenue Bonds and Notes - The water service charges were not at a level that produces and maintains net revenues equal to at least 110% of principal and interest requirements due in the same year as required by the water revenue bond resolution.

Recommendation - Water service charges need to be at a level that produces and maintains net revenues equal to at least 110% of principal and interest requirements due in the same year as required by the water revenue bond resolution.

Response - The City will consider a rate increase for water service charges.

Conclusion - Response accepted.

- IV-E-16 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

- IV-F-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- IV-G-16 City Council Minutes - No transactions were found that we believe should have been approved in the City Council minutes but were not.

- IV-H-16 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-I-16 Financial Condition - The water and flood damage funds had deficit balances at June 30, 2016 of \$51,770 and \$920,710, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The deficit is due to timing of reimbursement of funds.

Conclusion - Response accepted.

- IV-J-16 Delinquent Utility Accounts - At June 30, 2016, seven employees or council members had delinquent utility accounts.

Recommendation - We recommend that the City emphasizes to employees and council members that they are setting an example to the community by their actions.

Response - We will encourage employees and council members to pay their utility bills by their due date.

Conclusion - Response accepted.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2016**

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**Part IV: Other Findings Related to Required Statutory Reporting (continued)**

- IV-K-16 Urban Renewal Tax Increment Fund - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be used to pay the principal and interest on the certified indebtedness.

The Urban Renewal Tax Increment Fund appears to have an excess balance. The City no longer has debt to repay in several TIF districts and maintains a balance for these districts.

Recommendation - The City should consult TIF counsel to determine the disposition of the excess TIF funds.

Response - The City will consult TIF counsel.

Conclusion - Response accepted.

- IV-L-16 Utility Penalty Calculations - The December sewer and water penalty was calculated based on the prior month's bill instead of on the prior month's account balance. The March sewer penalty was calculated based on the prior sewer balance including the prior month's penalty.

Recommendation - We recommend the City review the utility penalty calculations to make sure they are calculated based on the correct information.

Response - We will review the penalty calculations.

Conclusion - Response accepted.

- IV-M-16 Water Ordinance - The City adopted a new water ordinance during the year that stated each individual residential and commercial unit being supplied City water, including each individual home within a mobile home park or trailer park, shall be assessed, on a monthly basis, a base rate for water usage, whether separately metered or not. This practice is not being followed by the City.

Recommendation - We recommend that the City review new ordinances and ensure that they are followed as written.

Response - We will review new ordinances and ensure the changes are made in agreement with the ordinance.

Conclusion - Response accepted.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2016**

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**Part IV: Other Findings Related to Required Statutory Reporting (continued)**

IV-N-16 Annual Urban Renewal Report - The City's beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's general ledger.

Recommendation - The City should ensure the cash balances reported on the Levy Authority Summary agree with the City's records.

Response - These items will be corrected on next year's report.

Conclusion - Response accepted.

IV-O-16 Employee Forms - During our test of transactions, we noted three Form I-9s that were not completed correctly.

Recommendation - The City should ensure all employee forms are filled out correctly.

Response - The City will comply with this recommendation.

Conclusion - Response accepted.

**City of Fort Madison  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2016**

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**Prior Audit Findings for Federal Awards**

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 97.036: Disaster Grants - Public Assistance (Presidentially Declared Disasters)**  
**Pass-through Agency Number: FEMA-4187-DR-IA/FEMA-4119-DR-IA**  
**Federal Award Year: 2015/2014**  
**U.S. Department of Homeland Security**  
**Iowa Homeland Security and Emergency Management Department**

**CFDA Number 66.468: Capitalization Grants for Water State Revolving Funds**  
**Pass-through Agency Number: C0660R**  
**Federal Award Year: 2015**  
**U.S. Environmental Protection Agency**  
**Iowa Finance Authority**

**CFDA Number 11.300: Economic Development Division - Investment for Public Works and Economic Development Facilities**  
**Federal Award Year: 2012**  
**U.S. Department of Commerce**

III-A-15     Segregation of Duties over Federal Receipts - City of Fort Madison did not properly segregate  
(2015-001) collection, deposit and record keeping for receipts, including those related to federal programs.

Recommendation - It was recommended that the City review its control procedures to obtain the maximum internal control possible under the circumstances, and should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Current Status - Due to the limited number of office employees, segregation of duties over federal receipts continues to be a significant deficiency. See III-A-16 in the current year findings.

III-B-15     Preparation of Schedule of Federal Awards - Through review of the City's grant activity and the  
(2015-002) process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. As a result, the schedule contains errors and omissions.

Recommendation - We recommend that the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Current Status - The City has designated a staff member to track this information and is working to refine and improve that information gathering process.